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C O N F I D E N T I A L DHAKA 003628

SIPDIS

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TAGS: [ECON](#) [EINV](#) [ENRG](#) [ETRD](#) [PGOV](#) [BG](#)

SUBJECT: CDA PAYS COURTESY CALL ON BOI EXECUTIVE CHAIRMAN

Classified By: Acting Pol/Econ Counselor David Renz, reasons 1.4(d).

11. (U) Summary: BOI Executive Chairman and Energy Ministry Advisor Mahmudur Rahman discussed his new role in the Ministry of Energy, Power and Natural Resources and his plans for reforms with CDA Chammas. He also discussed large investment deals that the BDG is currently negotiating with Indian and U.S. investors. End Summary.

12. (U) CDA Judith Chammas met with Rahman for a courtesy call on July 26. CDA was accompanied by EconOff as notetaker during the hour-long meeting.

13. (C) Rahman said that he has been busy with reform plans for the whole Ministry since taking over as advisor on June 20. Rahman is working on a three-part reform plan that he intends to implement by January 2006. He calculates that he only has eight months to put reforms in place before the campaign season hits full swing. His goal: reduce system loss in the energy sector by 50 percent and reduce accounts receivable by 75 percent.

14. (C) He told the CDA he has been approached by the World Bank and other donors about reforms in the archaic BDG energy policy. He is preparing a new long-term energy policy to protect and efficiently utilize Bangladesh's vast gas and coal reserves. He cited recent steps that he has taken to reverse systemic non-payment of gas and electric utility bills by commercial and industrial customers. Recently, he shut down the gas supply to a factory run by a prominent ruling party member for failure to pay substantial arrearages.

15. (C) In an attempt to address corruption within the Ministry, Rahman transferred 178 employees accused of corruption out of the Ministry. He also plans to implement an e-governance program in the gas sector modeled after his successful e-governance program at the Board of Investment. In the oil sector, he noted that Bangladesh imports over 3.7 million tonnes of oil per year, of which 2.3 million tonnes is diesel fuel oil. The BDG subsidizes sales of diesel fuel, which has created a thriving resale market into India, where prices are higher. Rahman recently gathered diesel consumption numbers from regions of the country. Consumption in the border regions is two to three times higher than in other areas. He plans to crack down on the dealers in those areas and start an inter-ministerial process to curb this problem. He said that in his most conservative estimation, Bangladesh would save over \$200 million through this crackdown.

16. (C) On the investment front, Rahman said that the TATA deal is on track. There are six areas that are currently being negotiated. He expects the issues of land rights, duration of government gas security, and licenses for coal mining to be resolved within a week. He pointed out, however, that the price of gas sales to TATA and power purchase price from TATA, together with the long list of fiscal incentives proposed by TATA, are the three most critical and difficult issues to resolve. Nevertheless, he is optimistic that agreements will be concluded in time for a November ground-breaking ceremony.

17. (C) Mahmudur Rahman praised the Embassy and U.S. investors for their work in Bangladesh and promised continued support for two U.S. power generation projects. He reiterated his enthusiasm and commitment to the Road Show, tentatively scheduled for October. He told the CDA that senior BDG officials and business leaders have shown keen interest in the Show and are optimistic that this Road Show will help create closer investment and trade links between the U.S. and Bangladesh.

18. (C) Comment: BOI Executive Chairman Mahmudur Rahman was appointed by the PM to the Energy Ministry as advisor following the removal of the State Minister for Energy due to corruption charges. Rampant corruption in the gas sector and in the Ministry as a whole has led to public and investor outcry over the Ministry's operations. Rahman's reputation as a non-corrupt, business friendly, private sector outsider could restore some credibility to the Ministry. His attempts at cracking down on unpaid gas bills have grabbed significant media attention, but will require sustained effort in the face of powerful vested interest if they are to have any long-term impact. End Comment.

